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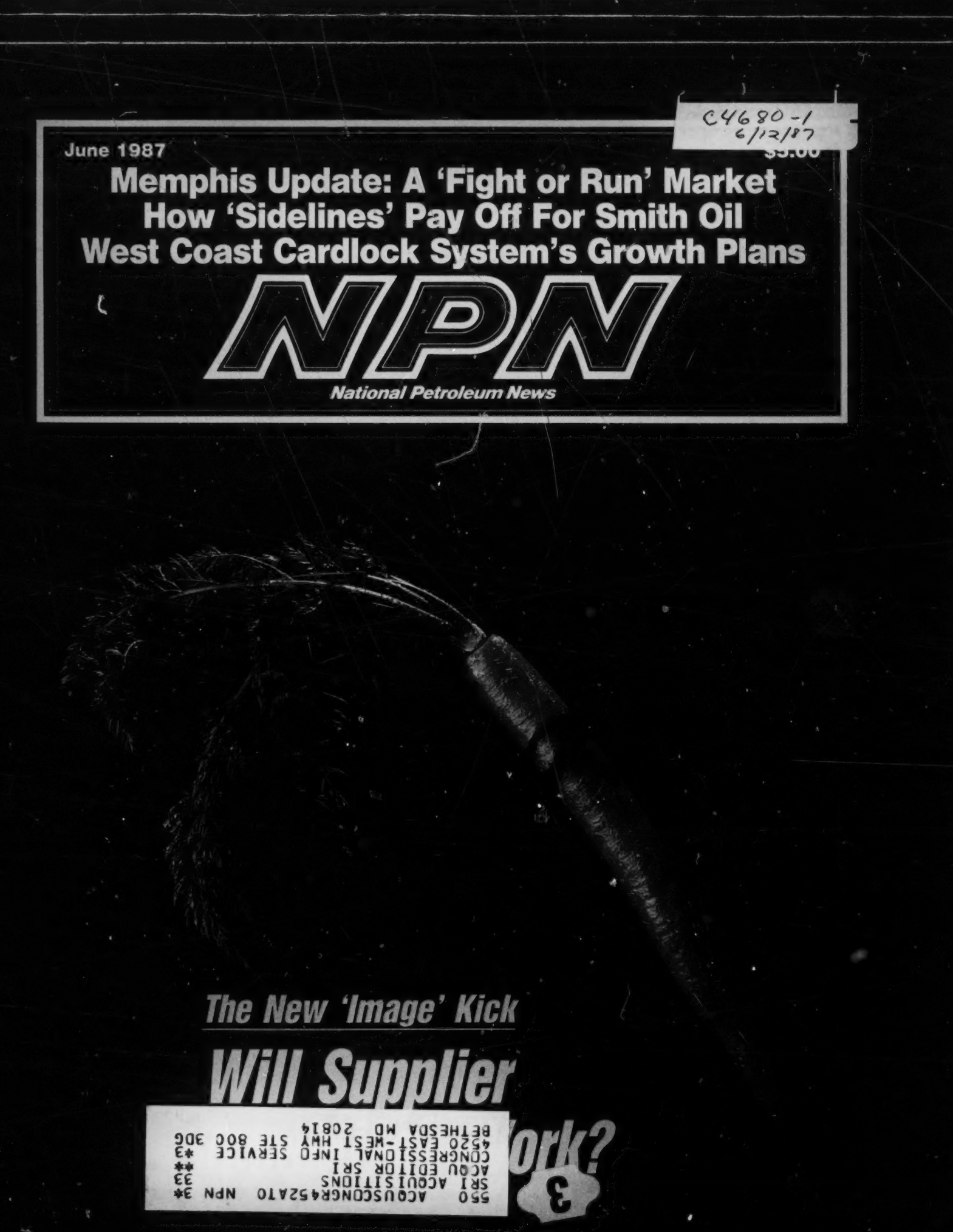
June 1987

Memphis Update: A 'Fight or Run' Market
How 'Sidelines' Pay Off For Smith Oil
West Coast Cardlock System's Growth Plans

NPN

National Petroleum News



The New 'Image' Kick

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JUNE 1987 VOL. 79 NO. 6

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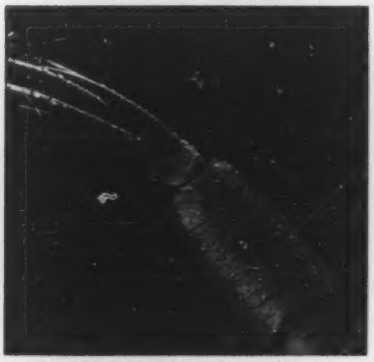

Once again, major oil companies are on an "image" binge with modern new stations or rehabs of existing units. Part of their strategy includes millions of dollars in incentives to encourage jobbers to actively participate. **Page 40**

A growing network of franchised cardlock fueling stations appears to be offering many marketers the opportunity to expand their commercial cardlock businesses without a big capital outlay. **Page 46**

Like a barroom brawl crashing out into a back alley, Memphis marketers are taking their sharp marketing tactics beyond city limits, building multi-million dollar truck stops and keeping the city's reputation for rugged competition intact. **Page 50**

• TRENDS

Will Multiple Supplier Trend Hurt Jobbers?

A trend that started among jobbers for their very survival in the scary supply days of the 1970s could be backfiring on them now. Refiner-suppliers, from most indications, are becoming increasingly nervous about the "loyalty" of branded distributors who have multiple supply sources. As a result, some suppliers are increasing their "controlled" outlets.

The concern about jobber "loyalty" in steadily buying their contracted supply appeared to be one of the reasons Conoco put new incentives and restrictions in its jobber supply contracts as part of its brand standardization program [*NPN*—March '87, p13]. Other refiner-suppliers are also becoming more insistent that jobbers pull the product they contract to buy.

The refiners say it's tough to operate their refineries and distribution systems efficiently when their branded jobbers buy too little or too much of their contracted supply. They accuse some jobbers of jumping from one supplier to another for as little as 0.25¢ a gal.

Jobbers say this is nonsense. One of them says that a jobber who has a branded franchise will be "loyal" to that supplier as long as prices "are competitive." This jobber admits, though, that he shops among his sources each day for the cheapest price.

This is a relatively new attitude. Prior to the 1980s, a jobber usually had one supplier and one brand and rarely bought product on the "outside." But during short-supply times in the 1970s, refiners couldn't always supply all their jobbers' requirements and in many cases advised them to find extra product wherever they could. Many jobbers did, often lining up a half-dozen or more sources. Now, for reasons of both supply insurance in case of new shortages and for price, the jobbers are reluctant to return to the old days of having just one brand, one supplier.

Refiners no longer offer certain enticements, either, for a jobber to stick loyally with them and shun all others. In the pre-1970s, there were the goodies such as price protection, free credit cards, liberal credit terms, freight allowances, free this and free that. A major brand jobber had to think twice before he gave up a major flag. Most such freebies are gone now and about all the major refiner can do is raise questions about the endurance and "staying power" of a jobber's alternate supply sources.

Some jobbers complain that refiner-suppliers aren't sufficiently competitive at times, letting their jobber buying price get "out of the market" and then is slow to do anything about it.

Phillip R. Chisholm, executive vice-president of Petroleum Marketers Assn. of America, points out that most jobber supply contracts state how much product a jobber will buy but say nothing about price. He believes this is unusual, that most distributor agreements in other businesses do have clauses about price. The jobber, in a way, has to trust that his contracted supplier won't leave him swinging slowly in the wind when other suppliers start slashing prices.

Many jobbers, obviously, are wary of such blind trust in today's market. They believe a way to keep their primary supplier in line at the jobber racks is to have alternate sources to turn to if necessary.

Some refiner-suppliers, though, including some often referred to as "minor" or "baby majors," are now taking some "insurance" steps of their own. They are buying up a distributor here and there, and also increasing their ownership of company stations. One large chain retailer says that these days it's difficult to discuss supply arrangements with some companies without getting an offer to buy part or all of his business.

A representative of one company on such a buy-out binge says he wants more controlled outlets so he knows how much gasoline and other products to make each day. He adds that product flowing through his jobber channel can fluctuate too much each day. *—Marvin Reid*

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (per gal.)

MARCH	Gasoline (All types)	Leaded Regular	Unleaded Regular	Unleaded Premium
U.S. City Avg.	$ .918	$ .856	$ .912	$1.052
Regions:				
Northeast	.921	.849	.896	1.042
North Central	.895	.848	.895	1.038
South	.913	.845	.905	1.043
West	.943	.879	.946	1.095

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (Add 000 bbl.)

	5/1/87	5/2/86
Gasoline (total)	243,479	206,261
Gasoline (Unleaded)*	142,008	108,652
Jet Kerosine	40,572	39,220
Distillates	100,151	96,059
Residual	38,034	36,301

**Included in gasoline total.*
Source: American Petroleum Institute.

NPN

NATIONAL PETROLEUM NEWS JUNE 1987

Exxon's Long Asset Shadow: 76% Greater Than 2nd Place Mobil

With assets of $69.5-billion at the end of 1986, Exxon Corp. is by far the biggest of the score or so of megabuck companies that supply U.S. consumers with most of their gasoline, heating oil and other petroleum products.

Mobil is the industry's second largest in terms of assets, but even with $39.4-billion in its favor, it's still only about half the size of Exxon, the titan of them all. Texaco slipped ahead of Chevron in 1986 and now ranks third. Its assets are listed at $34.9-billion and Chevron's at $34.8-billion. Shell, which became the country's leading gasoline marketer last year [*NPN*—May '87, p29] ranked fifth, with assets of $26.2-billion.

The erosion of Chevron, which had been the No. 1 gasoline marketer prior to Shell's takeover, is interesting but not necessarily surprising.

Chevron had been ranked about fifth in size in 1984 when it bought Gulf Oil Corp. for $13-billion, still the biggest single acquisition in the nation's history, bar none. That achievement enabled Chevron to vault to second place in size and to take over leadership in the annual gasoline gallonage derby.

Forced by law to divest itself of properties in the Southeast and pressed into retreat in the bitterly competitive Northeast, Chevron's total assets shrank in 1984 by a restatement of its Gulf acquisition, then again in 1986 to $34.9-billion, its second big decline in three years.

Exxon, Arco and Pennzoil were the only companies that appeared to have improved their asset structures in 1986. Exxon rose 0.5%, Arco 6.5% and Pennzoil 2.1%. Exxon, however, was the only one that had maintained the growth pattern of the 1980s.

Another interesting sidelight to the current rankings of companies by assets is the reemergence of both Conoco and Marathon Petroleum. After Conoco was acquired by Du Pont and Marathon by U.S. Steel (now known as USX Corp.), their sales figures, earnings and other vital statistics were rolled into the corporate reports, thus circumscribing the traditional financial materials and making comparisons impossible.

The asset data are once again available for both so they now can be included in the listings of the top 25 marketing companies. Conoco ranks 10th in oil assets and Marathon, 14th.

Limited data on other big independent marketers are now available too, including Citgo, which is Southland's marketing

The Billion Dollar Companies And Where They Stand

	Ranking		(In billions of dollars) Assets		%
	1986	1985	1986	1985	Change
Exxon	1	1	$69,484	$69,160	0.5%
Mobil	2	2	39,412	41,752	(5.6)
Texaco	3	4	34,940	37,703	(7.3)
Chevron	4	3	34,853	38,889	(11.1)
Shell	5	5	26,214	26,528	(1.2)
Amoco	6	6	23,706	25,198	(5.9)
Arco	7	8	21,603	20,279	(6.5)
Tenneco	8	7	18,021	20,437	(11.8)
Standard	9	9	15,955	18,330	(13.0)
Conoco	10	10	13,000	14,115	(7.9)
Phillips	11	11	12,399	14,045	(11.7)
Sun	12	11	11,684	12,923	(9.6)
Unocal	13	13	10,133	10,797	(6.2)
Marathon	14	14	9,184	10,074	(8.8)
Coastal	15	15	7,877	8,258	(4.6)
Amer. Hess	16	16	4,914	6,219	(21.0)
Ashland	17	18	3,805	3,928	(3.1)
Dia. Sham.	18	17	3,517	4,618	(23.8)
Pennzoil	19	19	3,369	3,300	2.1
Kerr-McGee	20	21	3,090	3,702	(16.5)
Murphy	21	20	1,980	2,661	(25.6)
Amer. Petrofina	22	22	1,777	1,274	(2.2)
Citgo/Southland	23	23	1,210	1,274	(5.0)
Getty	24	24	(a)	(a)	—
Cumberland Farms (b)	25	25	—	—	—

(a) Getty's assets are slightly below $1-billion so this is for estimated ranking purposes only. (b) Cumberland Farms does not release financial details so this is for estimated purposes only.

Exxon's Long Asset Shadow, Continued. . .

division; Cumberland Farms, whose purchase of a Chevron-Gulf empire in the Northeast made it the nation's biggest independent marketer of gasoline; and Getty Petroleum, the second biggest independent. Southland nominally would outrank Getty as an independent gasoline marketer, and perhaps Cumberland too, but since it also has a refinery, its status is different—that of a refiner-marketer rather than a "pure" independent.

In addition to stunting asset growth in 1986, the collapse of crude and product prices also produced another major change in historic ratings and rankings.

Only two companies—Exxon and Mobil—earned more than $1-billion last year compared with six the year before. In bygone years there were as many as 10 to 12 in this exclusive "billionaire's club." Those who fell by the wayside in 1986 were Chevron, Amoco, Shell and Standard, formerly Sohio.

The table on page 31 summarizes the asset formulations of the past two years. Greater detail is contained in the *NPN Factbook*. NPN

Exxon Rides Crest; Others Lag in Asset Values

Of all the oil marketing companies with assets of $1-billion or more, only Exxon Corp. managed to continue the growth pattern of recent years in 1986. It barely made it into the plus column, however, with only a miniscule improvement of 0.5%.

Ten of the score or so multi-billion companies appeared to have hit their assets peaks—at least for the time being—in 1985 and 1984. Two have to go back to 1982 to find their financial high water marks (See related table).

A more startling comparison is that again, with the exception of Exxon, all of the top companies reported their 1986 assets were down significantly versus their peak years. Some can attribute this to the wrenching cutbacks in the wake of the collapse of crude and product marketplaces last year. Some can blame attritional processes as well as spinoffs of assets.

Some companies, Phillips and Unocal particularly, were forced to sell selected assets as a result of the havoc caused by corporate raiders. Others, like Chevron and Texaco, which inflated their sizes with big merger bites (Gulf and Getty, for example) were ordered by the courts to divest some of their assets to equalize competitive factors.

Oil Company Assets, '86 vs. Peak Years

	Peak Year	(In billions of dollars) Peak Year Asset Total	% Chng. '86 vs. Peak Year
Amer. Hess	1984	$ 6,353	(22.7%)
Amer. Petrofina	1985	1,817	(2.2)
Amoco	1983	25,805	(8.1)
Ashland	1982	4,210	(9.6)
Arco	1983	23,282	(7.2)
Coastal	1985	8,258	(5.8)
Chevron	1984	45,404(a)	(23.8)
Citgo	1981	6,049(b)	(70.6)
Conoco	1985	14,115	(7.9)
Dia. Sham.	1983	6,024	(41.6)
Exxon	1986	69,484	0.5
Kerr-McGee	1983	3,806	(18.8)
Marathon	1985	10,074	(8.8)
Mobil	1984	41,851	(5.8)
Murphy	1982	2,990	(33.8)
Pennzoil	1983	3,517	(4.2)
Phillips	1984	16,955	(26.9)
Shell	1985	26,528	(1.2)
Standard	1985	18,330	(13.0)
Sun	1985	12,923	(9.6)
Tenneco	1985	20,437	(11.8)
Texaco	1984	37,774	(7.5)
Unocal	1985	10,793	(6.1)

(a) In 1984, Chevron was required to keep its assets separate from those of Gulf, which it was acquiring; hence, the total reflects the combined assets of Chevron and Gulf. The following year after the merger was implemented, this total was restated as $36.38-billion which changes the percentage decrease to 6.7%.
(b) This was the old Citgo immediately before its acquisition by Occidental which sold off some of the assets and subsequently sold Citgo downstream marketing to Southland. A more appropriate asset valuation for comparison, therefore, might be 1982's $1.4-billion which would reduce the percentage decrease to 13.4%. NB: Getty Petroleum and Cumberland Farms also are big marketers but Getty's assets in 1986 were below $1-billion and Cumberland refuses to disclose financial data.

IRS, Continued. . .

station. It went into effect January 1986, but marketers didn't know about it until November.

However, IRS spokesman Bill Jackson says there have been so many petitions from petroleum groups—including the Society of Independent Gasoline Marketers of America, Petroleum Marketers Association of America, and the National Association of Truck Stop Operators—that the IRS is considering changes in the rule for off-highway diesel use. Jackson couldn't say what amendment might occur or when.

Marketer Group Against New PMPA Amendments

Amendments to the Petroleum Marketing Practices ACT (PMPA) have been reintroduced in Congress. But this time petroleum marketers aren't supporting the legislation because dealers dropped a controversial pricing provision.

PMAA spokesman David Morehead says marketers can't support the bill because it would not remove a "constructive termination clause" in the present PMPA law. He says marketers want to include the pricing provision to "make it more difficult for majors to cancel a marketer."

The bill was introduced by Reps. Douglas Walgren (D-Pa.) and Tom Tauke (R-Iowa). A Walgren staffer says the bill has been "much more widely accepted" among the service station industry because the bill drops the pricing provision.

The focus of the proposed changes is to make majors adopt a "fair and reasonable" policy for changing leases. For example, majors cannot refuse to renew leases, if dealers refuse to sign contracts making them responsible for tank leaks.

Weak Prices Depress First Quarters Upstream and Down

There were all sorts of reasons, depending upon which company was doing the talking, why the oil industry's first-quarter earnings sagged so badly. The principal one, however, seemed to be that product prices were very slow to reflect modest increases in crude oil cost.

Only Phillips Petroleum and Diamond Shamrock suffered real losses in the first quarter but the nets of virtually all other companies were down materially from the comparable period of 1986. The decreases ranged from a mild 8.6% (Kerr-McGee) to a shattering 74% (Sun).

Downstream earnings, which were so strong in 1986 on the basis of the plummeting crude oil prices, also turned sour for most companies in first quarter 1987. Of the 13 companies that had refining-marketing earnings available for the new year, seven were on the downside while six squeaked by in the plus column. Only Standard Oil Co. had a significant percentage change, a wild 1340% increase. The dollar amount really wasn't that much, however, only $65-million. Standard's principal source of supply is Alaskan crude and last year it was hurt by a bad price differential and this year the situation was reversed.

The boxscore below tells the story:

First Quarter Earnings: Corporate and Downstream

(millions of dollars)

	Corporate Net			Downstream		
	1st. qtr. 1987	1st. qtr. 1986	% Chng.	1st. qtr. 1987	1st. qtr. 1986	% Chng.
Exxon	$1,070.0	$1,710.0	(37.4)	($38.0)	$160.0	—
Mobil	252.0	440.0	(42.7)	2.0	50.0	(96.0)
Texaco	118.0	328.0	(64.0)	(55.0)	39.0	—
Chevron	198.0	377.0	(47.5)	(52.0)	48.0	—
Shell	108.0	276.0	(60.9)	8.0	61.0	(86.9)
Amoco	260.0	331.0	(21.4)	(5.0)	19.0	—
Arco	239.0	199.0	(20.1)	25.0	90.0	(72.2)
Tenneco	29.0	53.0	(45.3)	NA	NA	—
Standard	200.0	253.0	(20.9)	72.0	5.0	1340.0
Conoco*	55.0	153.0	(64.0)	NA	NA	—
Phillips	(32.0)	96.0	—	30.0	118.0	(74.6)
Sun	38.0	146.0	(74.0)	(12.0)	68.0	—
Unocal	60.7	70.2	(13.5)	NA	NA	—
Marathon*	115.0	(173.0)	—	NA	NA	—
Coastal	44.1	(52.0)	—	NA	NA	—
Amer. Hess	181.0	(329.0)	—	NA	NA	—
Ashland (a)	0.7	41.6	—	(34.6)	34.8	—
Dia. Sham.	(49.6)	(10.0)	—	NA	NA	—
Pennzoil	12.1	(16.1)	—	NA	NA	—
Kerr-McGee	20.2	22.1	(8.6)	5.3	(2.4)	—
Murphy	3.1	10.9	(71.6)	(0.4)	1.0	—
Petrofina	19.8	(39.7)	—	NA	NA	—
Citgo	NA	NA	—	NA	NA	—
Getty	NA	NA	—	NA	NA	—
Cumb. Farms	NA	NA	—	NA	NA	—
Crown Cent.	(15.2)	(17.7)	—	NA	NA	—

* Conoco and Marathon are pretax operating income; (a) second quarter, fiscal ends 9/30.